A Guide to Strategic Planning Under Free Trade

The Canada-U.S.

Free Trade Agreement

A Guide to Strategic Planning Under Free Trade

Province of Manitoba

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The Guide To Strategic Planning Under Free Trade

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1. Letter To Canada Customs With Instructions
2. Catalogue Of Tariff Reductions

Introduction

Do You Know What Free Trade Means For Your Business

The Canada-United States Free Trade Agreement (FTA) will remove a number of significant tariff and non-tariff barriers to trade between the two ccuntries. New opportunities will be created for Canadian companies to do business in the U.S. and, in turn, U.S. companies will have easier access to Canadian markets.

Each company must make its own decisions as to how it will respond to free trade. Some companies see it as presenting major opportunities for growth, others believe that it will negatively affect them, and many have concluded that it will make little difference to how they operate. In some cases, the conclusion by a firm on how the FTA will affect it may not be based on a careful analysis of the probable effects on business operations. This guide is designed to assist in this task. Only **you** can determine what the FTA will mean for your business.

The FTA will open up new opportunities, but it cannot guarantee results. Benefiting from the agreement will be the responsibility of each company and will largely depend on how it chooses to respond. If you are in a sector where the impact of the FTA is anticipated to be mixed or even negative, this does not mean that your business must be among those negatively affected. Careful planning may allow you to offset negative impacts and find alternative opportunities for growth. It may be a mistake to assume that your company will not be affected by the FTA simply because you focus on local markets and have no intention of trading with the U.S. You could face increased competition for local opportunities from U.S. companies expanding into Canada. Increased competition could also come from other Canadian companies whose increased sales to the U.S. could result in better economies of scale, lower cost operations, and an improved competitive ability in their home market as well.

Responding to the opportunities and challenges of the FTA will require a strategic plan for your business. If you already have a business plan, then it should be modified in light of the FTA. Many companies, including those in the U.S., are already doing their planning. They will be well positioned to secure opportunities. Waiting until the FTA is fully implemented to develop a strategic plan may mean that the opportunities for your business are reduced or even lost. Assessing and planning for the impact of the FTA on your business may be a relatively straight forward task or it may be a complex, time-consuming undertaking. In either case it is necessary. Your analysis utilizing the Guide is divided into five parts:

I. Determining the effect of the FTA on existing Tariff Barriers.

II. Determining the effect of the FTA on existing Non-Tariff Measures.

III. Rules of Origin.

IV. Assessing the probable impacts of the FTA.

V. Developing a strategic plan for your business in response to the impact of free trade.

This guide is intended to assist manufacturers in planning for free trade. It is designed to permit the reader to work through the analysis using a step by step process. Most of the information required is readily at hand, as it relates to your company, but certain items, such as tariff data, may require assistance from outside sources.

Every business is unique and there may be certain issues relevant to your company that are not covered in this guide. Users should note that a series of province-wide FTA workshops for manufacturers is planned to assist them in using this guide to assess the impact of free trade. For further information on the dates and locations of the workshops or general information and assistance, please contact:

Trade Branch
Manitoba Industry, Trade and Tourism
400-155 Carlton Street
Winnipeg, Manitoba
R3C 3H8
Telephone: (204) 945-8714
Fax: (204) 957-1793
Telex: 07-587833

Copies of the Free Trade Agreement and Canadian and U.S. Tariff Schedules can be obtained through the nearest office of the Federal Department of Industry, Science and Technology.

PART I: Determining The Effect Of The FTA On Existing Tariff Barriers

Step 1. Determining the tariff classification number

Step 2. Determining the relevant Canadian and U.S. tariff rates

Step 3. Determining the staging category of each tariff

Step 4. Determining which tariffs are most significant

Step 5. Projecting tariff reductions

Step 6. Categorization of tariffs

PART I

Determining the Effect of the FTA on Existing Tariff Barriers

Introduction

Trade between Canada and the U.S. is currently affected by a range of laws, regulations and policies at various levels of government. Federal measures applied at the border, particularly tariffs, are the most frequent laws affecting trade. However, as there is also a broad range of other government measures, such as import quotas, which also affect trade, this analysis will be divided into two categories - tariffs and non-tariff measures.

The FTA will eliminate all tariffs, so your first step is to assess the relevance of existing tariffs to your operation. In order to complete this step and evaluate the impact of tariff elimination on your business, it is necessary to identify the various U.S. and Canadian tariffs which affect you. If your business has more than one product line, this tariff evaluation should be completed for each line since the tariff levels of individual products vary widely. Even though some products might presently account for only a small part of your total business, they could present promising opportunities under free trade.

This means that you must look at the tariffs on each of your products and major input materials. The tariffs in both Canada and the U.S. must be examined because in many cases both will be relevant.

The first step to assessing the impact of tariffs involves classification. The classification of tariffs is done pursuant to the Harmonized Tariff Classification System. All countries using the Harmonized System have identical tariff classifications to the six-digit level of detail. However, classifications can vary at levels of detail greater than six digits. These differences may occur in the last two or four digits of a tariff number (i.e., at the 8 or 10 digit level), but you will easily be able to determine the U.S. classification for an item once you have determined the Canadian classification because the first six digits will always be identical. Page 40 in the appendix contains a document titled "Catalogue of Tariff Reductions". You will utilize this document to conduct your tariff barrier analysis. Detach the Catalogue from the Appendix portion of the Guide and place it in front of you.

PART I - Tariff Barriers - Steps to Complete

For each of your products and major input materials you are going to determine:

1. The applicable Canadian and U.S. tariff classification.
2. The applicable Canadian and U.S. tariff rates.
3. The FTA tariff removal staging category of each tariff:

A Removed immediately on January 1, 1989,
B Phased out in equal stages over 4 years,
C Phased out in equal stages over 9 years,
D Already duty-free.

4. Determine which tariffs are most significant.
5. Project the FTA phaseouts of significant tariffs.
6. Categorize each tariff as a hindrance or a benefit.

Step 1
Determining the Tariff Classification numbers.

In each of the numbered "catalogue item" spaces on the Catalogue of Tariff Reductions list your primary products and the most important input materials of each of them (in terms of cost). Unless there are many inputs of relatively equal importance, it is generally sufficient to look at two inputs per product. Once you have completed this task you will determine and record the Canadian Harmonized tariff classification number of each of the listed items in your Catalogue of Tariff Reductions. For information on tariff classifications, rates and FTA phase out, contact:

CANADA CUSTOMS
REGIONAL APPRAISAL SERVICE
Winnipeg, Manitoba
(204) 983-7989

On pages 38-39 of the appendix you will find a blank letter addressed to Canada Customs. This letter has been placed in the Guide for those persons who have utilized the above noted telephone number as a source of tariff classification information. Canada Customs is not legally bound by telephone classifications. While the telephone quote in many instances will be accurate, it is **strongly recommended** that a follow-up letter be sent to Canada customs to ensure accuracy. The classification of your products is crucial to your business planning, as it is the classification which determines the relevant rate of duty and phase-out under the FTA. In the Appendix, you will also find a set of explanatory directions that will assist you with ensuring that your letter contains all the necessary information to enable Canada Customs to provide you with a binding classification ruling. The U.S. Government has a similar system for providing a binding tariff classification.

Step 2
Determining The Relevant Canadian And U.S. Tariff Rates

AND

Step 3
Determining The Staging Category Of Each Tariff

Now that you have ascertained and recorded the appropriate Canadian tariff classifications the next task is simple.

- **Refer to a Canadian FTA tariff schedule book.**
- **The tariff schedule book has 4 columns: .**
- **Item**
- **Article Description**
- **Base Rate**
- **Staging Category**
- **Refer to the Canadian classification number of the first product in your Catalogue of Tariff Reductions,**
- **Look up that classification number in the tariff schedule book. (You will find classification numbers in the lefthand column of the tariff schedule book in numerical order).**
- **Record in your Catalogue, the base Canadian rate listed for the classification number**

AND

- **Circle the staging category listed in the schedule in the space provided in your Catalogue**
- **Repeat this procedure for each of the Catalogue items for which you have a tariff classification number.**

You are now going to Repeat this procedure referring to a U.S. tariff schedule. As noted earlier the Harmonized Tariff Classification System is an international method of classifying goods and is identical to the six digit level.

The U.S. classification number for each of your listed articles will contain the same first six digits as the Canadian classification number.

- Refer to a U.S. FTA tariff schedule book.
- The tariff schedule book has 4 columns:
- Item
- Article Description
- Base Rate
- Staging Category
- Refer to the classification number of "Catalogue Item l" in your Catalogue of Tariff Reductions,
- Look up the first six digits of that classification number in the U.S. tariff schedule book. (You will find classification numbers in the lefthand column of the tariff schedule book in numerical order).
- Look beyond the six digit level and determine the most likely classification number which your item will fall under. Your decision will be based on which classification contains an article description that most accurately parallels your listed item. Record the U.S. classification number in the appropriate space in your Catalogue.
- Record in your Catalogue the base rate listed for the U.S. classification number

AND

- Circle the staging category listed in the schedule in the space provided in your Catalogue
- Repeat this procedure for each of the items listed in your Catalogue.

Step 4
Determining Which Tariffs Are Most Significant

Canadian Tariff Barriers

Many Canadian manufacturers that depend primarily on the Canadian market for sales have never systematically considered the protection afforded them by high Canadian tariffs. These tariffs can act as major barriers to U.S. competitors interested in entering the Canadian market. This is especially true for U.S. industries with low profit margins whose products are subject to high tariff rates.

Make a note (*) beside all of the items listed in your "Catalogue of Tariff Reductions" which are subject to a Canadian tariff over the 5% rate of duty

U.S. Tariff Barriers

Many Canadian businesses that are not export oriented have not considered the impact of U.S. tariffs on their potential to compete in the U.S. market. U.S. tariffs have often acted as strong disincentive to export to the U.S. This is especially true with high U.S. tariffs in price competitive markets.

Make a note (*) beside all of the items listed in your "Catalogue of Tariff Reductions" which are subject to a U.S. tariff over the 5% rate of duty

Step 5
Projecting Tariff Reductions

The next task involves projecting the reduction of tariffs that will occur under the FTA. For the purposes of simplicity, your projections will encompass only the years 1989, 1993, and 1998 (immediate application, 4 and 9 years respective-

ly into the agreement). All tariffs not immediately eliminated on the January 1, 1989, commencement date will be phased out in equal annual increments. However, the years 1993 and 1998 have been selected to illustrate the trends that will occur under free trade and are the key years for tariff elimination under the FTA.

- **Refer to your Catalogue of Tariff Reductions, and specifically to the tariff items which you noted were higher than 5%.**
- **For each item over the 5% rate of duty, project the reduced tariff rates for the years 1989, 1993 and 1998 pursuant to the appropriate staging category.**

For example, if your product is "widgets", currently subject to a 10% Canadian and 6% U.S. tariff to be phased out pursuant to category C (i.e. 9 years), you would complete the Catalogue of Tariff Reductions in the following manner:

Step 6
Categorization of Tariffs.

You must now categorize each of the tariffs noted in your Catalogue of Tariff Reductions as:

1. Protective Of Your Canadian Sales.
This type of tariff currently protects the competitive position of your business. An example of this type of barrier would be a high Canadian tariff on an item you produce that makes it difficult for a U.S. competitor to successfully enter the Canadian market. All Canadian tariffs on products you produce will fall into this category.

2. Hindrance To Your Exports To The U.S.
This type of tariff currently impedes your ability to conduct business in the U.S. on a competitive basis. Examples of this type of tariff include a high Canadian tariff on an input material for your product which has made it expensive for you to source inputs from the U.S. or a high U.S. tariff on your product which has made it difficult for you to export competitively to the U.S. market.

Catalogue Item: 1 WIDGET					Staging Category	
Canadian Classification Number			4901.23.00		A B C D	
U.S. Classification Number			4901.23.00		A B C D	
Year	1988	1989	1993	1998	Protective	Hinderance
Canadian	10%	9%	5%	0%	✗	
U.S.	6%	5.4%	3%	0%		✗

Study each of the significant tariff items in your Schedule Of Tariff Reductions and indicate, by an "x" in the right hand column, whether the tariffs are currently protective of, or a hindrance to, your business.

PART II: Determining The Effect Of The FTA On Non-Tariff Measures

PART II

Non-Tariff Measures

Introduction:

A non-tariff measure is any form of government intervention which affects trade which is not in the form of a tariff. Often, non-tariff measures or barriers, or NTB's as they are frequently called, are more significant hurdles to conducting business in a foreign country than tariff barriers. In contrast to tariffs, it is difficult to assess the precise impact of the liberalization of non-tariff measures, as such measures do not lend themselves to quantitative analysis. In those areas where clear improvements have been made to reduce the effects of non-tariff measures, the changes for the most part were implemented when the Free Trade Agreement came into force (i.e., there is no formal phase-in period). In other areas where future negotiations and consultations are envisaged, changes may not occur for several years.

On the following pages you will find a listing and description of the most common NTB's. The description will be followed by a explanation of how the Free Trade Agreement will likely impact on each NTB. Unless otherwise noted, the FTA changes apply to both countries.

Step 1. After you read the description of each NTB, indicate with an "X" if that NTB is currently affecting your business.

Step 2. Next, indicate whether the barrier has been a benefit or a hindrance to your business.

Step 3. Finally, read the explanation of how the FTA will impact on the barrier and indicate whether that impact is positive or negative in terms of its effect on your business.

1. Temporary Access

Description:

This category relates to the problems associated with crossing the U.S. or Canadian borders caused by protective and stringent visa requirements for business visitors. This barrier can be a particular hindrance to a range of business objectives such as after sales servicing of products and the provision of professional services. The delay or denial of temporary entry for business purposes can be a significant barrier to trade in many sectors.

Is this NTB relevant to my business?

YES ❒
NO ❒

Has this NTB benefitted or hindered my business?

BENEFITTED ❒
HINDERED ❒

Free Trade Agreement Impact:

Temporary Access for business purposes will be facilitated in both countries as new reciprocal rules will facilitate the entry of business travellers from one country to the other. Categories of visitors falling under these new rules are: Business Visitor; Professional; Trader; Investor; and IntraCompany Transferee

Will the impact of the FTA in this area have a positive or a negative effect on my business?

POSITIVE ❒
NEGATIVE ❒

2. Technical Standards

Description:

This category largely relates to regulatory controls which establish certain standards for products to protect health, safety, the environment, and other similar objectives. Standards are often established for the protection of public interests. Examples of standards include product labelling requirements, product ingredient requirements, environmental standards (e.g., lead content of gasoline) or professional accreditation requirements. While generally legitimate, standards are occasionally applied in a way which unfairly impedes trade in a commodity, such as a case where a restrictive standard bears no reasonable relationship to a legitimate policy objective.

Is this NTB relevant to my business?

YES ❒
NO ❒

Has this NTB benefitted or hindered my business?

BENEFITTED ❒
HINDERED ❒

Free Trade Agreement Impact:

The FTA adopts the provisions of the GATT Standards Code which regulates the use of standards which affect international trade. Problems associated with standards issues will be reduced by increased cooperation in setting standards, testing, and certification. The FTA provides for negotiations to resolve standards issues.

Will the impact of the FTA in this area have a positive or a negative effect on my business?

POSITIVE ❒
NEGATIVE ❒

3. Import Quotas:

Description:

There is a general prohibition against import quotas under the GATT so their incidence in Canada U.S. trade is relatively low and is justified in individual cases by reference to specific GATT provisions. Nonetheless, there are import quotas applied by both countries, especially in the agricultural sector. In some cases, there is an outright embargo of trade in certain products.

In terms of your analysis, this category relates to U.S. quantitative restrictions on the importation of certain commodities. It may also relate to Canadian quotas on products such as key inputs that you use in your manufacturing operations.

Is this NTB relevant to my business?

YES ❒
NO ❒

Has this NTB benefitted or hindered my business?

BENEFITTED ❒
HINDERED ❒

Free Trade Agreement Impact:

There are no major changes in the current rules on import quotas. However, in a few cases, import quotas will be eliminated, such as the Canadian commitment to phase out the used car embargo.

Will the impact of the FTA in this area have a positive or a negative effect on my business?

POSITIVE ❒
NEGATIVE ❒

4. Export Controls

Description:

This category relates to Canadian or U.S. controls on the exportation of certain products. The GATT already restricts the use of export quotas so they are not widely used in Canada U.S. trade. Export taxes are permitted under GATT, but are relatively rare in bilateral trade. Existing controls in this area are often maintained for security or short supply situations.

Is this NTB relevant to my business?

YES ❒
NO ❒

Has this NTB benefitted or hindered my business?

BENEFITTED ❒
HINDERED ❒

Free Trade Agreement Impact:

There are few changes in the FTA affecting this category, as the two countries affirm their GATT obligations not to apply import or export restrictions except in defined circumstances. The FTA ban on the use of export taxes in bilateral trade is a new, important rule. However, its impact is minimal given the current use of these measures.

Will the impact of the FTA in this category have a positive or a negative effect on my business?

POSITIVE ❒
NEGATIVE ❒

5. Border/Customs Procedures

Description:

This category relates to the bureaucratic "red tape" that exporters can encounter to the extent that either U.S. or Canadian customs procedures interfere with bilateral trade in a commercially viable product. For example, border delays could cause perishable goods to spoil.

Is this NTB relevant to my business?

YES ❒
NO ❒

Has this NTB benefitted or hindered my business?

BENEFITTED ❒
HINDERED ❒

Free Trade Agreement Impact:

Canada and the U.S. are working towards the goal of streamlining border procedures and the use by both countries of the Harmonized System of Tariff Classification will facilitate virtually identical U.S. and Canadian product classifications. Because the favourable duty treatment (ultimately duty free) applies only to products which are substantially Canadian and/or U.S., the filing of an Origin document will be added to Customs procedures in both countries.

Will the impact of the FTA in this category have a positive or a negative effect on my business?

POSITIVE ❒
NEGATIVE ❒

6. Contingency Protection:

Description:

This category refers to the application of trade laws and particularly anti-dumping or countervailing duty trade actions by the U.S. or Canada. Pursuing a trade action (or defending against one aimed at your products) can require extensive amounts of time and money. Subsidized goods are particularly vulnerable to trade actions. This is a complex area to assess and as the title sug-

gests, the applications of those rules in individual cases is difficult to forecast.

Is this NTB relevant to my business?

YES ❐
NO ❐

Has this NTB benefitted or hindered my business?

BENEFITTED ❐
HINDERED ❐

Free Trade Agreement Impact:

Free trade will provide for a more efficient and predictable method of processing trade actions and is expected to significantly reduce problems associated with these laws. Generally, increased cooperation and direct bilateral participation in the application of trade remedy laws will reduce exposure. Each country will be exempted from safeguard actions taken by the other country so long as the exporting country's share of the trade in the item is below 10%. The development of new countervailing duty and antidumping laws over the next 5-7 years should also increase the predictability and transparency of trade law actions.

Will the impact of the FTA in this area have a positive or a negative effect on my business?

POSITIVE ❐
NEGATIVE ❐

7. Government Procurement Rules:

Description:

This category refers to restrictions on the ability Description of manufacturers in one country or the other to supply goods and services to governments in the other country.
Suppliers in both countries already have equal access to certain federal government contracts in the other country as a result of the GATT Government Procurement Code negotiations concluded in 1979. This area is particularly relevant to the steel and construction industries.

Is this NTB relevant to my business?

YES ❐
NO ❐

Has this NTB benefitted or hindered my business?

BENEFITTED ❐
HINDERED ❐

Free Trade Agreement Impact:

The FTA lowers the minimum dollar amount for federal government contracts open to suppliers from the other country under the GATT Government Procurement Code. This will reduce discrimination in this area and increase the number of foreign Contracts open to nondomestic (i.e., U.S. or Canadian) competitors. While these changes represent minor gains in liberalizing government procurement rules, the FTA provides for further negotiations in this area.

Will the impact of the FTA in relation to this NTB have a positive or a negative effect on my business?

POSITIVE ❐
NEGATIVE ❐

8. Other

This category pertains to any miscellaneous nontariff barrier which is not covered by the categories listed above.

Notes on Non-Tariff Measures

PART III: Rules Of Origin

PART III

Rules of Origin

Introduction

The "rules of origin" in the FTA serve the purpose of ensuring that only goods which are substantially Canadian and/or U.S. will gain the benefit of duty free treatment. In essence, they prevent the transshipment of goods (i.e., from third countries to the U.S. and then to Canada where the objective is to reduce the tariffs applied against the non-FTA goods). In order for a good to be given the benefit of the FTA, the exporter of that good must be able to demonstrate that the good originated from either Canada and/or the U.S.

This process is very simple if a good has been wholly produced in Canada or the U.S., utilizing inputs from one or the other country exclusively. The process becomes more complex, however, for businesses that source inputs from countries other than Canada or the U.S. In general, under such circumstances, goods will be deemed to originate from Canada or the U.S. if the manufacturing or assembly process results in a change of tariff classification or if the end-product has had 50% of the value of the product added within Canada and/or the U.S.

The rules of origin will not be applicable to most businesses in Manitoba. The exceptions are those companies which import a significant portion of their inputs from outside North America, and those companies in the clothing and textile sectors.

PART III

Rules of Origin Instructions for Completion

1. Determine whether the Rules of Origin are relevant to your business.
2. If applicable, complete the Rules of Origin Annex.

To determine whether the rules of origin are applicable to your business, answer the following:

From where do the input components or materials for your product originate (i.e., where is the material or component built or manufactured, not where is it shipped from)?

(i) exclusively Canada and/or the U.S.
(ii) substantial proportion from Canada and/or the U.S.
(iii) minor proportion from Canada and/or the U.S. (i.e., less than 30% of inputs by value originate in North America).

If your answer for each product was confined to categories (i) and/or (ii), then the rules of origin would not appear to apply to your business.

If your answer included category (iii), then it is important for you to examine the effects that the rules of origin will have on your ability to use the FTA. It may also be important for those in category (ii) to do a detailed assessment of the rules of origin issue. For those judging that the rules of origin are relevant, complete the Rules of Origin Annex to this Guide.

The Rules of Origin Annex can be obtained by contacting:

The FTA Advisory Service
Trade Branch
Department of Industry, Trade and Tourism
Province of Manitoba
410-155 Carlton St.
Winnipeg, Manitoba
R3C 3H8
Phone (204) 945-8714

Answer the following question

The rules of origin are or are not relevant to my business?
ARE ☐
ARE NOT ☐

Notes

PART IV: Assessing The Probable Impacts Of The FTA

Step 1. Protective tariff and non-tariff measures

Step 2. Hindering tariff and non-tariff measures

Step 3. Secondary effects

Step 4. Overall impact

PART IV

Assessing The Probable Impacts Of The FTA

Introduction:

The purpose of this Part of the guide is to bring together the basic FTA impacts related to your manufacturing operations and assess the overall impact of the FTA on your business. The total impact of the FTA on your operations would be the sum of all the individual impacts as each relevant tariff and non-tariff barrier is removed and affects the competitive position of your products. To streamline this process, you should focus on your major products, their most important inputs and the major barriers you have already identified in the first three parts of your analysis.

PART IV
FTA IMPACT - Steps to Completion

1. Complete Question Set 1.
2. Complete Question Set 2.
3. Complete Question Set 3.
4. Categorize the overall impact of the FTA on your business.

The analysis in this portion of the guide will be developed through three sets of questions, focusing on:

1. The removal of barriers which have protected your Canadian sales.
2. The removal of barriers which have hindered your ability to export to the U.S.
3. The secondary effects of free trade.

In the space provided after each set of questions, write a brief analysis of the impact of the removal of the barriers on your business operations.

Step 1

Question Set 1: Protective Tariff And Non-tariff Measures

Refer to the tariff and non-tariff barriers to trade which have protected your business. You have identified these in Parts I and II of the Guide - you may want to turn back to these Parts to refresh your memory. The focus of these questions is on the increased competition you will likely face from U.S. products in the Canadian market. Ask the following questions in relation to each protective barrier that is relevant to your business operation:

- Has this barrier prevented U.S. competitors from entering the Canadian market?
- If so, are these competitors likely to enter once the barrier is gone?
- What is the overall impact of the removal of this barrier?
- Does the time frame for the removal of the barrier affect the likely impacts?
- Who are the potential U.S. competitors?
- What is your company's competitive position in comparison to these U.S. companies?
- Does your business have the resources to stay competitive?
- Are there any markets or products which could be particularly vulnerable?

Are the answers to the above questions largely the same for all products or would some of them be affected differently? If, so, what are the differences?

Step 2

Question Set 2: Hindering Tariff And Non-tariff Measures

Refer to the tariff and non-tariff measures which have hindered your business. You have identified these barriers in Parts I and II of the Guide. The focus of these questions is on your new export opportunities in the U.S. market as a result of the FTA. Ask the following questions in relation to each hindering barrier that is relevant to your business operation.

- What is the impact of the removal of this barrier?
- What will be the overall impact of removing the impediments in relation to your competitive position in the U.S. market?
- Have these tariffs prevented your business from expanding and entering the US market?
- Which of your products might be competitive in the U.S. under the FTA?
- Are there institutional or distribution factors which make entry into the U.S. market difficult?

Are the answers to the above questions largely the same for all products or could some of them be different? If so, what are the differences?

Step 3

Question Set 3: Secondary Effects

There are various indirect effects of changes in the trading environment which can impact on manufacturers. These secondary effects of free trade, although difficult to predict, can be important and should not be ignored. For example, if some of your company's biggest customers will undergo a rapid expansion as a result of free trade, this could have a significant favourable impact on your business.

It is important to look at some of the international or third country effects of bilateral free trade, as there will no doubt be secondary and tertiary effects brought about by the FTA. In recent years there has been a marked increase in international trade in intermediate goods which are inputs to other manufacturing processes. Current patterns of trade in these items could be influenced by the FTA in several ways. For example. among affiliated companies, world product mandating has become common and will likely increase under the FTA.

The ability of US and Canadian manufacturers to source inputs duty free from each other's suppliers will not only increase their competitiveness in North America but also in international markets as well and should result in increased exports offshore. The increased cost competitiveness in Canada and the US should stimulate additional foreign interest in locating new investments in North America with production earmarked for offshore markets. A number of joint venture production and marketing arrangements within Canada and the US may also develop from these investments. Question Set 3 focuses on these probable secondary effects on business.

- What will be the local/regional impacts of free trade? For example are the industries around you expected to boom under free trade?
- What effect will the FTA have on your sourcing or buying practices?
- What effect will the FTA have on your customers?
- What is the potential for Canadian companies which use your products as inputs to switch to U.S. sources?
- What are the probable international effects in your industry?
- Will the increased competitiveness in your sector lead to more Canadian or US exports to third country markets?
- What are the implications for new investment in your sector? Is there likely to be renewed interest in investment from offshore?

Step 4

Overall Impact

Review the notes you have made after each question set pertaining to the impact of the removal of tariff and non-tariff measures.

On the basis of your notes to question sets 1, 2, and 3, select the category below that you believe best describes the overall impact of free trade on your business:

CATEGORY

1. Very negative ❒
2. Somewhat negative ❒
3. Minimal ❒
4. Somewhat positive ❒
5. Very positive ❒

You must now consider how you will respond to the probable FTA impact on your business.

PART V: Developing A Strategic Plan For Responding To Free Trade

Step 1. The concept of strategic planning

Step 2. Strategy One: improving company performance

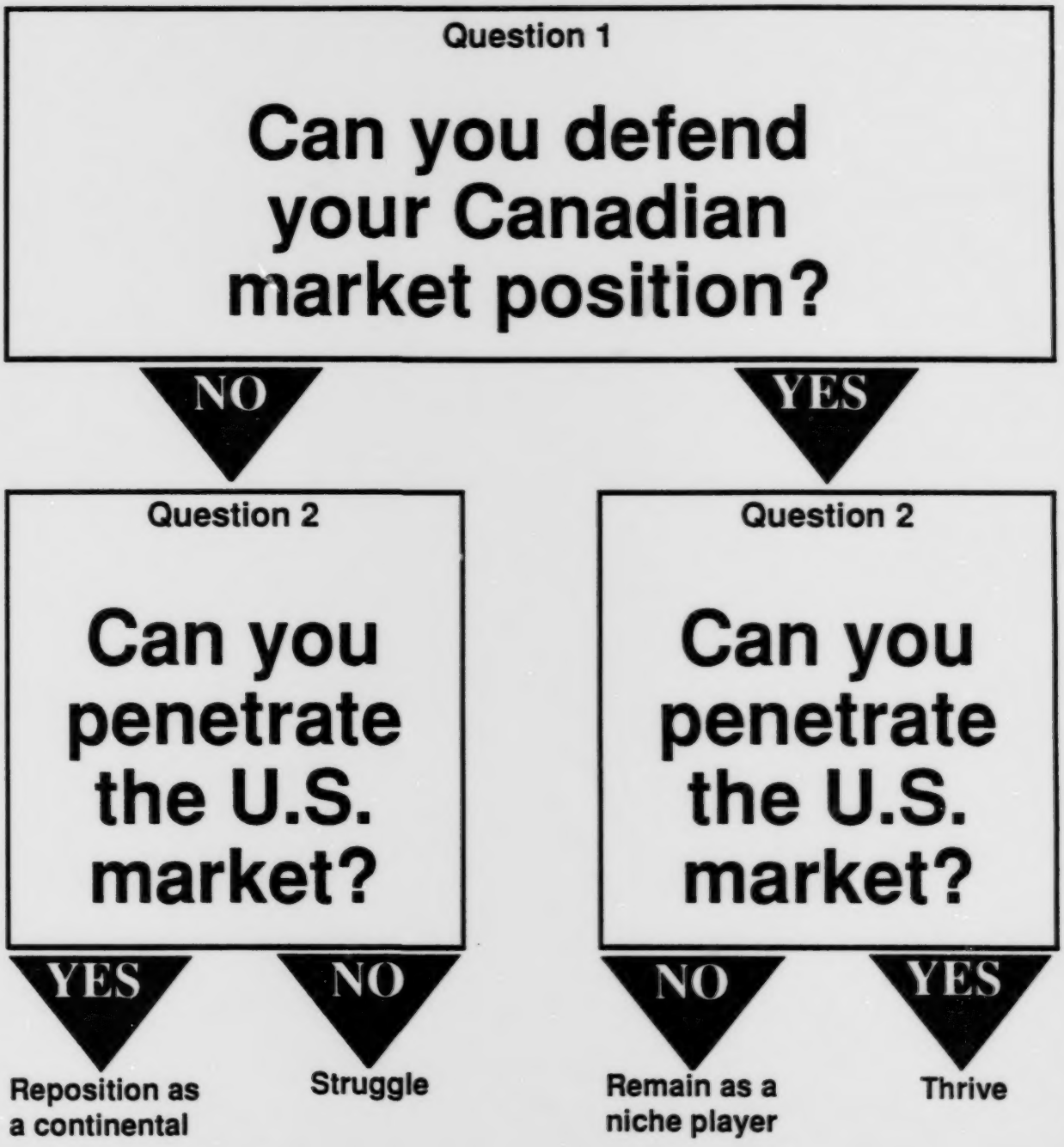
Step 3. Strategy Two: market penetration

Step 4. Developing a strategic plan

Step 5. Strategic plan checklist

Step 6. Implementing and monitoring

Answer Two Critical Questions



PART V

Developing A Strategic Plan For Responding To Free Trade

Introduction:

You have now identified the likely overall impact of free trade on your business. For some businesses, the FTA will open up opportunities. For other companies. however, the primary effect will be to open Canadian markets to strong U.S. competition. In most cases, companies affected by the FTA will experience a blend of increased opportunities and competition.

The viable strategic options available to you under free trade will be somewhat dictated by which impact category your business falls under. Very few Manitoba businesses will be polarized into category one or five. The majority will be situated in the more moderate categories two, three, and four. The purpose of strategic planning is to enable your company to devise a strategy to position itself in the most favorable manner possible.

This part of the guide is divided into six sections. The first section briefly describes the concept of strategic planning and the key steps in preparing a strategic plan. The second and third sections discuss two major strategies for responding to free trade - market penetration and improving company performance. The fourth section details the development phase of a strategic plan. Section 5 provides a checklist for your plan, and finally, section 6 identifies the critical factors in successfully implementing and monitoring your strategic plan.

Section 1

The Concept of Strategic Planning

The chart on the facing page asks you to answer two key questions. If you have already prepared a strategic plan for your business, you probably know the answers. If you do not have a strategic plan, you probably do not know how you will react to free trade.

Preparing a strategic plan for your business does not need to be a complex process. It will, however, take time and resources to do properly. If it means that your business is able to capitalize on new opportunities under free trade and/or defend itself against new competitors, the time and resources will be well spent.

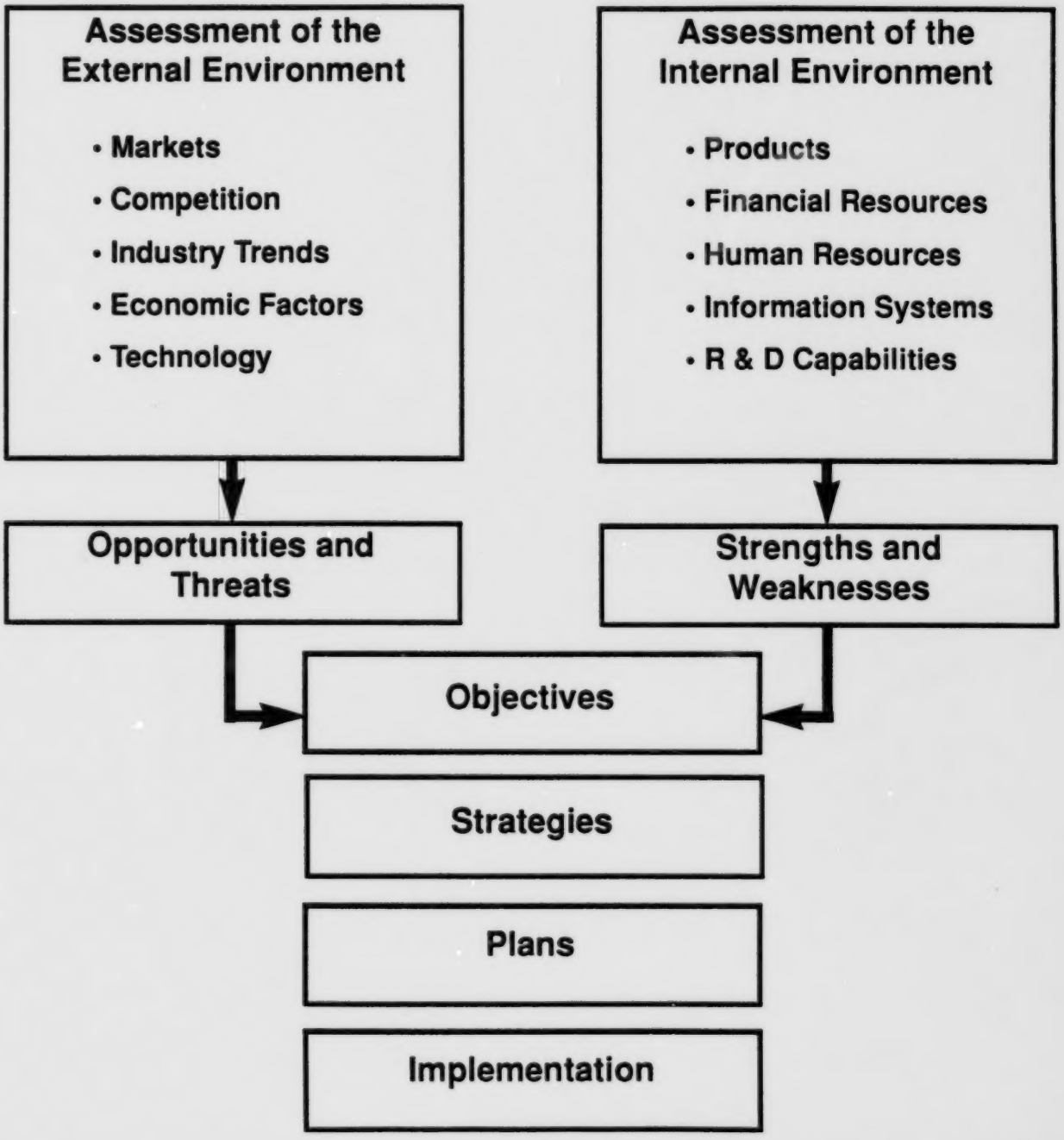
Strategic planning involves allocating the resources of your business in the most effective and efficient way possible to maximize profitability over the long-term. Obviously, any business wants to maximize its profitability and, even if you do not have a strategic plan, you are probably already practicing some of the elements of strategic planning. The purpose of preparing a strategic plan is to make sure that you have considered all the relevant factors (the external and internal environments) in deciding where you want your business to go (objectives) and how you intend to get there (strategies and plans).

Key Steps In Strategic Planning

1. **Assessment of the External Environment**

There are a broad range of factors external to your business that influence how you operate. Examples include markets, competition, industry

Key Steps in Strategic Planning



trends, economic factors, and technology. In most cases, your business will have little ability to control any of these factors. Rather, you can only respond to changes and trends in the external environment. Being able to respond means knowing not only the Current state of the external environment but also the key trends that will likely affect your business in the future. For example, your business may face increased competition under free trade. Do you know who your current and potential competitors are? Do you know their strengths and weaknesses? How do you think that they are likely to respond to free trade?

For example, it is not enough to know that free trade will open up new opportunities for your business in the U.S., you will need to understand the characteristics of the market before you can act on these opportunities. How large is the market for your product? How will you promote your product? What are the factors that purchasers in the market would consider important in buying your product? How will you distribute the product?

You need to ask the same kinds of questions in terms of increased competition from U.S. producers in the Canadian market.

Assessing the external environment will likely take the most time in developing your strategic plan. It will require collecting information from a variety of sources, carefully analyzing this information, and drawing your own conclusions about the opportunities and threats that your business faces under free trade.

2. Assessment of the Internal Environment

Assessing the internal environment means looking at your business and determining, as objectively as possible, its strengths and weaknesses. As with the external environment, this analysis must be conducted both for the present and the future under free trade. For example. you may have sufficient financial resources to operate your business profitably at the current time, but you must also determine your financial needs under free trade. If you perceive opportunities in the U.S. market, do you have the financial resources to act on these opportunities? If you perceive a threat from new competitors in your existing markets, can you afford to fight them?

Among the factors to consider for the internal environment are: your product(s); your financial resources; the skills and capabilities of your human resources (management and production workforce); your information systems (what types of information do you have access to, how accurate is it, and how timely is it?); and, what are your research and development capabilities if new or improved products are needed to compete under free trade?

Since much of your time is probably already spent keeping on top of the internal environment, assessing the strengths and weaknesses of your business should take less time and resources than analyzing the external environment. The challenge is to do so in an objective manner since it can be difficult to step back from the day-to-day issues facing your business and look at how you operate from a strategic perspective.

3. Setting Objectives

Based on evaluation of the opportunities and threats facing your business, and the strengths and weaknesses of your business, you should be in a position to set realistic objectives for your business. These objectives answer the question "where do you want to go?". They should be as explicit as possible and should cover such factors as market share, sales volumes, product decisions, revenues, costs and returns on investment. The objectives that you set should provide you with a challenge, but they must also be realistic targets.

In setting objectives, establishing a timeframe is critical. For some objectives, an annual target is sufficient (e.g., market share). In other cases, monthly or even weekly objectives may be ap-

propriate (e.g., sales targets). Having a time frame for your objectives will assist you in keeping your business on track and in measuring your progress.

4. Strategies and Plans

Developing strategies and plans for your business in response to the objectives that you have established answers the question "how are you going to get there?".

Strategies set the direction for your business in achieving its objectives. Strategies include such factors as how you want to position yourself in the market (e.g., dominant player versus niche player); the position of your product (e.g., pricing, packaging); and the manner in which you intend to sell your product (e.g., established distribution channels, mail-order, direct to end-users using a sales force).

Plans are the specific steps and tactics that you will use in moving toward your objectives. They include, for example, production plans, sales forecasts, budgets, performance objectives and measures, and other day-to-day operational items. As with objectives, a timeframe is essential for strategies and plans.

5. Implementation

Having created a strategic plan for your business, the next step is often the most challenging-implementing the plan. This subject is addressed in the final section of the guide.

The following two sections of the guide contain two distinct strategies. The first one called "Improving Company Performance" is particularly relevant for those companies falling into the "negative impact categories" and is based upon minimizing negative impacts. This strategy is primarily focussed on the internal environment. The second for the positive impact categories is based on capitalizing on opportunities and is titled "Market Penetration". It is primarily focussed on the external environment.

It is worth noting that the two strategies are not mutually exclusive. An outward looking market penetration strategy could be a viable solution for a company that was negatively impacted by free trade. Similarly, a company which was going to be affected positively by the FTA could focus primarily on streamlining operations in addition to pursuing a market penetration strategy.

Refer to the number of the impact category, that you assessed your business to be in on page 19, and follow the set of instructions below.

Instructions:

If your business falls within negative impact categories 1 or 2, then turn to strategy one.

If your business falls within positive impact categories 4 or 5, then turn to strategy two.

If your business falls within category 3, then continue with the guide at your option. You could gain some useful ideas if you continue on and examine the concept of strategic planning.

Section 2

Strategy One: Improving Company Performance

If your business will be affected negatively by the FTA, then the first option you may wish to examnine is a defensive strategy that will minimize the weaknesses and accentuate the strengths of your company. This strategy should be centered on increasing your ability to compete under free trade by improving company performance. This can be accomplished by, for example:

- reducing costs/streamlining operations;
- rationalizing production;
- focusing on most viable products;
- moving up the value added chain of production;
- focus and selectivity in improving business weaknesses: and
- a careful study of current input sourcing prac tices and modification in light of free trade if appropriate.

In order to improve your company's performance, it is first necessary to take an inventory of the strengths and weaknesses of your business. The following questions are designed to help you to streamline these strengths and weaknesses.

Instructions

Rate your business on the following criteria. Assign a number between 1 and 5 (1 = very weak; 2 = weak; 3 = adequate; 4 = strong; 5 = very strong) by asking the question:

Is my business strong or weak in relation to the criteria listed?

In rating the strengths and weaknesses of your business, it is in your best interests to be as objective as possible.

The FTA impact column should be completed where free trade (i.e., tariff reductions) alters your ratings on one of the items. For example, prior to the implementation of the FTA, the ability of your company to perform after sales servicing could be rated at a 1 or 2. However, with the implementation of free trade, this rating could change to a 4 or 5 given the changes to temporary access laws. In many cases, the phase out of U.S. tariffs will improve a company's performance in a number of areas (e.g., availability of input materials).

Complete the ratings of your business under the status quo column and FTA impact using the chart on the next two pages. The strategic plan column will be completed later.

COMPANY PERFORMANCE INVENTORY	PRE-FTA STATUS QUO	FTA IMPACT	STRATEGIC PLAN
Product Issues			
• Product Quality			
• Product distinctiveness as against competitive substitutes/market niche			
• Price Competitiveness			
• Customer loyalty to product			
Production Issues			
• Steady and low production costs			
• Declining unit costs, ie., as output increases Costs decrease			
• Advanced production technology			
• Availability and price of inputs			
• Flexibility in production			
• Ability to customize products			
• Plant capacity			

COMPANY PERFORMANCE INVENTORY	PRE-FTA STATUS QUO	FTA IMPACT	STRATEGIC PLAN
Employee Issues			
• Skilled Labour Force			
• Wage expenses relative to: • a) Canadian competition • b) U.S. competition			
• Labour/management relations			
• Worker morale			
Location Issues			
• Location relative to: • a) major markets • b) source of key inputs • c) relative advantages over competitors			
Management/Financial Issues			
• Expertise of management			
• Sales and Profits trends			
• Balance sheet issues • a) debt load • b) debt/equity ratios			
Availability of incentive programs/ favourable tax treatment			

Assessing Weaknesses

Identify those criteria which you have ranked as 1,2, or 3, and answer the following questions:

- What could you do to improve the rating of each of the criteria?
- Would this change improve your overall com petitive position?
- Do you have the resources to undertake such a change?
- Do the projected results justify the necessary allocation of resources?

Assessing Strengths

Identify those criteria which you have rated as 3 or better, and answer the following questions:

- Which criteria are most significant to the operation of your business?
- How could you best capitalize on your strengths?
- What results would you like to achieve?
- How much risk are you willing to take to achieve these results?
- Do you have the resources to achieve the results you desire?
- Do the projected results justify the necessary allocation of resources?

The strategic plan column on your Company Performance Inventory (Pages 25 and 26) is a tool which you can utilize to assist in the process of strategic planning. You can, for example, use the column to record objectives for your strategic plan. Once the implementation of your strategic plan has begun, the column can be utilized as a monitor of the progress to date in relation to objectives and goals.

Strategy Summary

The purpose of this strategy is to allow you to compete. One of the most effective methods to improve your competitive position involves reducing the weaknesses of your business. Accordingly, the more significant the weakness in relation to your overall business success, the more effect the reduction of that weakness will have on your competitive position.

A similar strategy is involved in working on the strengths of your business. The more significant the strength, the greater the effect there will be if that strength is accentuated. For example, a small improvement in your rating for a critical factor, such as production costs, could have greater significance than a major improvement in a minor item, such as utilization of tax incentives.

Strategy One has required you to rate your business on a number of different criteria and to highlight those criteria which are most important to your business. If you have been objective in the completion of this task, you have assembled important data for future reference. If your business is going to be faced with U.S. competition, you could utilize the same list of criteria to assess the comparative advantages of your competitors. Such a comparison would allow you to further utilize Strategy One through an increased focus in certain areas. For example, if you discovered that your competitor had an advantage in terms of product quality, you might want to focus on improving the product quality of your business.

Now that you have examined Strategy One, it is recommended that you continue on and examine Strategy Two.

Section 3
Strategy Two: Market Penetration

An overall impact rating of 4 or 5 (see page 19) suggests you will have significant export opportunities under free trade. Canadian businesses producing Canadian products will have virtual free access to the largest consumer market in the world. Accordingly, businesses wanting to capitalize on this opportunity are well advised to formulate a plan to enter tne U.S. market. The development of an outward-looking strategy, based on penetrating the U.S. market could also be combined with a plan aimed at the expansion of existing domestic market share.

Examples of general strategies for market penetration include:

- direct export through your business sales force;
- direct export through U.S. agents;
- collaborative ventures;
- direct investment/acquisitions in foreign companies; and
- out license technology.

Issues to be considered in designing your strategies include:

- defining your market potential;
- undertaking a thorough analysis of your competitors' present and future potential:
- assessing product standards and other regulations; and
- understanding distribution channels.
- determining whether a sudden success in the U.S. market would overwhelm your business;

Potential Strategic Options:

1. Develop innovative marketing skills geared towards increasing sales volume through:

- market penetration
- market development
- forward integration
- related diversification

2. Product specialization or niching to combat U.S. economies of scale. Smaller companies have a difficult time competing against economies of scale but can be extremely competitive in short, flexible production runs.:

- find and analyze a product niche
- dominate the niche before moving on so that your sources are not spread too thin.

In order to improve your company's marketing performance, it is helpful to the inventory of the strengths and weaknesses of your marketing activities. After you have completed your marketing performance inventory, you will be in a better position to assess which marketing strategy is best suited to your business.

Instructions

Rate your business on the following criteria. Assign a number between 1 and 5 (1 = very weak; 2 = weak; 3 = adequate; 4 = strong; 5 = very strong) by asking the question:

Is my business strong or weak in relation to the criteria listed?

In rating the strengths and weaknesses of your marketing activities, it is in your best interest to be objective. Companies not exporting to the U.S. or other foreign markets should complete this exercise in relation to Canadian sales.

Complete the Status Quo column only. You will complete the Strategic Plan column later.

Marketing Performance Inventory	Status Quo	Strategic Planning
In-house marketing strategy		
Outside sources of marketing strategy		
Comprehensive marketing strategy		
Customer recognition of product brand		
Customer loyalty to product		
Establishing market niche		
Use of advertising mediums a) TV		
b) Radio		
c) Print		
d) Trade Shows		
Sales network		
Steady demand for product		
After sales service		

Assessing Weaknesses

Identify those criteria which you have ranked as 1, 2, or 3, and answer the following questions:

- What could you do to improve the rating of each of the criteria?
- Would this change improve your overall competitive position?
- Do you have the resources to undertake such a change?
- Do the projected results justify the necessary allocation of resources?

Assessing Strengths

Identify those criteria which you have rated as 3 or better, and answer the following questions:

- Which criteria are most significant to the operation of your business?
- How could you best capitalize on you strengths?
- What results would you like to achieve?
- How much risk are you willing to take to achieve these results?
- Do you have the resources to achieve the results you desire?
- Do the projected results justify the necessary allocation of resources?

The Strategic Plan column on your Marketing Performance Inventory (Page 30) is a tool you can use to assist in the process of strategic planning. Use the column as a record of the objectives in your strategic plan. Once you have implemented your strategic plan, the column can be used as a monitor of the progress to date in relation to your initial objectives and goals.

Strategy Summary

Strategy Two has been designed to assist you in determining the potential for your business to penetrate the U.S. market. This strategy is a viable option for many companies, but must be carefully planned. The U.S. market offers substantial rewards for those companies which can compete successfully. However, it could be financially overwhelming for a company to enter the market without some competitive advantage over products already established in that market.

Strategy Two has required you to focus your attention on some of the issues that are pertinent to entering a new market. The issues raise specific questions that only you can answer in relation to your business. Once the questions and issues have been resolved, your company could be in a strong position to develop a detailed plan for entering the U.S. market.

Strategy Two has allowed you to assess several strategic options in relation to your business. Depending on the type of business you run, some of the strategies will not be applicable. There are several ways in which you can enter the U.S market and the initial choice you must make is which method is best suited to your operation. This decision should be carefully weighed and should be based on a concrete analysis of your U.S. competition. Accordingly, it may be necessary for you to seek outside assistance regarding, for example, U.S. market data. This would entail some costs, but the potential profits and gains to be made in the U.S. market should more than justify such an expenditure. It is suggested that you consider both Strategy One and Two. Therefore, if you have not already done so, turn to Strategy One.

You have now completed sections 1, 2 and 3 of Part V of the Guide. Section 4 of this part deals with the development of a strategic plan. Refer to section 4 and keep in mind your answers to the questions contained in strategy one and strategy two. Formulate a strategic plan that is realistic and achievable and that will enhance the competitive position of your business.

Section 4
Developing a Strategic Plan

You have now examined two distinctive strategies, the first involved improving the performance of your company, and the second strategy centered on market penetration. The information and analysis you have completed in relation to each strategy will assist you in the development of your strategic plan.

Strategy one and two asked you to assess the strengths and weaknesses of your business in relation to a number of different criteria. In completing this information you have developed a valuable inventory of some of the weak areas in your company upon which you could improve and some of the strong areas upon which you could further capitalize.

Note: In order to complete the exercises in Section 1 you will need some blank paper.

Setting Your Objectives

Your assessment of the internal and external environments has prepared you for the next step in the strategic planning process - developing the objectives of your plan. It is at this stage that you will determine the answer to the question -

- Exactly what must my business achieve to remain competitive and profitable in the 1990's?

With the answer to this question in mind, make a list detailing your objectives in relation to the following categories:

- Sales revenues
- Profits (margins and net revenues)
- Growth in equity position
- Improving company performance
- Image
- Expansion
- Staff Quality and Motivation
- Social and Community Obligations
- U.S. Market Penetration
- Domestic Market Penetration
- Diversification or specialization of product lines
- Other

A suggested form for the development of your objectives is as follows:

- CATEGORY: Sales Revenues
- OBJECTIVE: Increase sales by 20% over the prior year
- TIME FRAME: One year
- STRATEGY:

Developing Strategies To Meet Your Objectives

Congratulations, you have now developed the "all important" objectives that your strategic plan will embody. Now you must develop the equally important strategies that will ensure your objectives are realized. Think of your objectives as a destination and your strategies as the method of transportation you utilize to get you to that destination. It is during this stage that you will determine the answer to the question -

- What specific approaches will we use to achieve our objectives?

You should consider the following approaches:

- Marketing
- Training
- Cost control
- Research
- Communications
- Diversification
- Image management
- Program management
- Public relations
- Acquisition/divestiture
- Strategic partnering
- Employee motivation
- New products, facilities, services
- Staffing

Using the suggested form already noted you can now develop specific approaches/ strategies to achieving the objectives you listed in the prior exercise. Your strategies should be detailed and specific.

For example:
CATEGORY: Sales Revenues

OBJECTIVE: Increase sales by 20% over the prior year

TIME FRAME:One year

STRATEGY: To develop a comprehensive preferred customer program including:

l) price
2) payment terms
3) advertising support
4) services

that improves the attractiveness of products with top ten customers.

l) Price:
Provide volume rebates that effectively reduce the price by 2% on orders over $50,000.

2) Payment terms:
2% ten days; 1% twenty days; net thirty days.

3) Advertising support:
Provide co-operative advertising program with customers that showcase our products and their benefits.

4) Services:
Provide the customers with training in how to sell our products.

Refer to each of your listed objectives and using the suggested form develop detailed strategies to realize those objectives.

Section 5
Strategic Plan Checklist

You should now be at a stage where your objectives and strategies are clearly documented. You are about to begin the process of implementing your plan.

The strategic plan of an organization must clearly provide value to the organization. Therefore the value of the strategic plan to the organization must go beyond defining what the business will look like and how to realize the vision. The plan should have quantitative elements permitting the evaluation of success, and qualitative measurement.

Your strategic plan checklist focuses on the content of your plan. Your plan must incorporate a sufficient amount of detail in order to be effective. The following checklist challenges the content and effectiveness of your plan, The emphasis is on how to improve the probabilities of successfully implementing your plan.

How does your strategic plan rate in relation to each of the following questions.

1. Is the plan easy to read and understand?
2. Does the plan clearly identify the methods of measuring success for the total organization and key functional areas of the organization?
3. Does the plan clearly identify the critical factors affecting the ongoing and future success of the organization?
4. Does the plan contain input from those individ uals and/or functional areas responsible for implementation?
5. How long a time period does the plan cover? Is it appropriate?
6. Has the plan been developed to follow a logical sequence of events or activities?
7. Does the plan contain an executive summary which highlights key elements and/or items?
8. Does the plan address how and when resources will be utilized?
9. Is the achievement of the short-term objectives clearly measurable by predetermined criteria on a quantitative and qualitative basis?
10. Is the achievement of the long-term objectives clearly measurable by predetermined criteria on a quantitative and qualitative basis?
11. Are financial projections, analysis, and budgets clearly and completely presented in the plan?
12. Are specific procedures for controlling plan implementation presented?
13. Are specific procedures for monitoring and tracking performance against the plan present ed?
14. Are specific steps in the plan clearly identified as to when they will occur and who will perform them?
16. Are plan reviews scheduled and their responsibility assigned to specific individuals?

Critical Factors in Successfully implementing a Strategic Plan

- Commitment From The Key Stakeholders
- Effective Communication
- Allocation of Sufficient Resources
- Strong Management of The Process
- Continual Monitoring of The External and Internal Environments

Section 6
Implementation and Monitoring

As noted earlier in this guide, the most challenging step in developing a strategic plan is often implementation. In other words, deciding what to do (objectives, strategies and plans) is not the same as doing it (implementation).

There are a number of factors that typically influence a company's success in implementing a strategic plan. This section provides examples of these factors.

1. Commitment and Communication
Strategic planning can only work for your business if there is commitment to the process from all of the key stakeholders. These stakeholders normally include company management. The directors, the owners, and the employees. They must understand what the company is trying to achieve, why it has established particular objectives and strategies, and what their role will be.

Gaining commitment from the stakeholders requires effective communication. This is a two-way process. As well as conveying information, for example, to your employees, you also gain what can be a valuable source of input. You are not seeking their "permission" with respect to how you want to run your business. However, they can often provide useful insights on product strengths and weaknesses, competitors, methods of improving production, and other aspects of both the external and internal environments.

2. Resources and Management
Developing a strategic plan requires both time and resources. You must be prepared to allocate sufficient resources to developing a plan, particularly with respect to assessing the external environment. Few businesses are of a sufficient size or complexity to require a full-time strategic planner, but some allocation of resources to this task will be needed.

Ensuring that the resources which you allocate to strategic planning are efficiently used demands strong management of the process. This means that as the owner or manager of the business, you must be aware of potentially significant changes in the external and internal environments. It also means that you must carefully select the right person or team to be involved in strategic planning. The person or team must be multi-disciplinary since there are a broad range of external and internal factors to be evaluated and monitored.

3. Monitoring
Strategic planning is an on-going process, with continual monitoring of changes in the external and internal environments in order to ensure that your business is staying on the right track. Without it, you have no way of knowing where you are in relation to the objectives and plans that you have set for your business. Where there is a difference between your objectives at a given point in time and the results achieved you must determine why this has occured. If you are exceeding your objectives, perhaps you have been underestimating your company's strengths and potential. If you are not achieving your objectives, perhaps you have not been realistic in setting them, or perhaps there are issues in the external or internal environments that need to be addressed.

Evaluating the First Years Performance Against the Plan

As noted above it is important that you monitor your plan periodically (perhaps quarterly) to assess whether your objectives are being achieved.

Evaluating the first years performance against the plan is an essential element of ensuring the sustained effectiveness of The planning process.

The focus of your evaluation should be:

- How has the organization changed?
- What is the organization doing differently?
- Are the new methods of conducting business an improvement? Why?

Your organization should show some progress toward attainment of objectives. Remember every organization has difficulty with strategic planning. However, a concise and well thought out plan will set the tone for defining and realizing excellence in your organization.

Conclusion

Part V of the Guide has been designed to introduce you to the concept of strategic planning and how it can be used in responding to the impact of free trade. Free Trade will have impact on your business' A strategic planning approach will help to ensure that your business positions itself to prosper and survive the challenges of the 1990's.

THE NEXT STEP IS UP TO YOU!

Appendix

Step 1. Letter to Canada Customs with instructions

Step 2. Catalogue of tariff reductions

Appendix Instructions:

On the next page you will find a form letter which will facilitate your request to Canada Customs for a tariff classification ruling. As you recall in Part I, page 4, it was strongly recommended that you seek written confirmation of the initial telephone classification. The letter below indicates the appropriate specifics to be filled in each blank. As you will also note, the letter indicates that you have appended materials providing detailed descriptions of the items for which you are requesting classifications. Please ensure that such materials are included with your letter as this information is an essential prerequisite to a Customs Classification.

Customs Assessment Division
Central Region
269 Main Street
Winnipeg, Manitoba
R3C 1B3

Dear Sir:

My name is **(insert name)** and I represent: **(insert company name and mailing address).**

Please advise me of the tariff classification of the following:
(insert the name of the item or items you would like a classification ruling on)

Appended, please find a set of descriptive literature providing details of the item(s) I would like a classification ruling on.

Thank-you for your time and attention in this matter. If you have any questions, or need further information, please contact me at the above noted address or telephone (204) **(insert your phone number)**. I look forward to your prompt reply.

Sincerely,

(insert signature block)

Customs Assessment Division
Central Region,
269 Main Street,
Winnipeg, Manitoba
R3C 1B3

Dear Sir::

My name is
and I represent:

Please advise me of the tariff classification of the following:

Appended, please find a set of descriptive literature providing details of the item(s) I would like a classification ruling on.

Thank-you for your time and attention in this matter. If you have any questions, or need further information, please contact me at the above noted address or telephone (204)
I look forward to your prompt reply.

Sincerely,

Catalogue of Tariff Reductions

Catalogue Item 1					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 2					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 3					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 4					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 5					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 6					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 7					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 8					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 9					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

Catalogue Item 10					Staging Category	
Canadian Classification Number					A B C D	
U.S. Classification Number					A B C D	
Year	1988	1989	1993	1998	Protective	Hindrance
Canadian	%	%	%	%		
U.S.	%	%	%	%		

A Guide to Strategic Planning Under Free Trade

Rules of Origin Annex

Manitoba
Industry, Trade
and Tourism

The Canada-U.S.

Free Trade Agreement

A Guide to Strategic Planning Under Free Trade

Rules of Origin Annex

Province of Manitoba

Rules of Origin - Annex

PART ONE

You have ALREADY determined that your business could be affected by the rules of origin under the FTA. This complex set of rules may be somewhat confusing at first. It is recommended that you read this annex in its entirety before you attempt to follow the directions and work steps.

In order to determine the applicable rules of origin for your goods, refer to the Catalogue Tariff Reductions you have already completed.

Make a note beside each of the items listed as to whether they are an input or end product. Mark all inputs with the letter"I" and all end products with the letter"E".

Refer to all items that you marked with an "E" and to the applicable tariff classification number. The first two numbers in each classification number refer to a chapter of the tariff classification system.

Refer to Part Two of this annex which contains the tariff classification rules. These rules will allow you to determine whether or not your end product is entitled to treatment in accordance with the FTA. Turn to the page in Part Two of the annex which relates to the appropriate chapter of the goods you marked with an "E".

Look through the relevant paragraphs of the Chapter pertaining to your good and highlight each paragraph that contains a potential reference to your good. (Note: in order to do this you may have to refer to more than the first two numbers of the tariff classification of your good, as there may be more than one rule which could apply to your good.)

Each of the paragraphs of the rules sets out the criteria that will result in a good being deemed to originate from within Canada or the U.S. and are known as the "rules of origin".

There are six categories of rules:

Category	Rule
1.	Rules relating to chapter changes.
2.	Rules relating to heading changes.
3.	Rules relating to subheading changes.
4.	Rules relating to category 1, 2, or 3 with specific exclusions.
5.	Rules relating to category 1, 2, or 3 with a reference to the "direct cost of processing" criteria.
6.	Rules containing specific reference other than the 5 listed above.

Explanation

Part A

Each section of the Rules of Origin is laid out with general rules appearing first, followed by specific rules. It is important to remember one general overriding principle:

A Specific Rule Will Take Precedence Over A General Rule

For example:
"A change to Chapter 15 from any other chapter".

This general rule will not apply if there is a more specific rule within the section pertaining to the good you are concerned with.
"A change to heading 1516 to any other heading".

This specific rule would take precedence over the more general rule relating to chapter changes.

Part B Explanation of Rules Categories
Category 1 — Rules relating to chapter changes

The first two digits in a tariff classification number refer to a chapter. For example, in commodity classification 1507.09, the 15 refers to a chapter.

Example of rule category:
"A change from one chapter to another"

This rule would mean (in absence of a more specific rule to the contrary) that if your processing of an input good (or goods), transformed that input good in its exported finished state, to a different tariff classification chapter, then your finished good would be considered to originate from Canada.

Category 2 — Rules relating to heading changes

(ii) The third and fourth digits in a tariff classification number refer to a heading. For example, in commodity classification 1507.90, the number .07 is a reference to a heading.

Example of a rule category:

"A change to heading 1516 from any other heading"

This rule would mean (in absence of a more specific rule to the contrary) that if your processing of an input good (or goods) transformed that input good in its exported finished good state to a heading 1516, from any other tariff classification heading, then that finished good would be consided to originate from Canada.

Category 3 — Rules relating to subheadings

The fifth and sixth digits in a tariff classification number refer to a subheading. For example, in commodity classification 1507.90, the number.90 is a reference to a subheading.

Example of rule category:

*"A change in subheading 1519.20 from any other subheading"*This rule would mean (in absence of a more specific rule to the contrary) that if your processing of an input good (or goods) transformed that input good in its exported finished good state, to a subheading 1519.20, from any other tariff classification subheading, then that finished good would be considered to originate from Canada.

Category 4 — Rules relating to category 1, 2, or 3 with specific exclusions

Example of rule category:
"A change to heading 7217 from any other heading except headings 7213, 7214, 7215"

This rule would mean (in absence of a more specific rule to the contrary) that if your processing of an input good (or goods) transformed that input good in its exported finished good state, to heading 7217, from any other tariff classification heading, except from headings 7213, 7214 or 7215, then that finished good would be considered to originate from Canada.

Category 5 — Rules relating to category 1, 2 or 3 with a reference to the "direct cost of processing" criteria

Example of rule category:
"A change to headings 7801-7901 from headings of other chapters, provided, that the value of material originating in the territory of either Party or both Parties, plus the direct cost of processing performed in the territories of either Party or both Parties, constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party."

This rule is known as a direct cost of processing rule. In general terms a good will qualify for treatment under the FTA if 50% or more of the value of the good is added within the territory of Canada or the U.S. Part Two of this Annex provide the definitions which facilitate an analysis of the calculations involved in "direct cost of processing" and" value of materials originating in the territory of either party". You will have to refer to these pages if your good is subject to a Category 5 rule.

Category 6 — Rules containing specific references other than the 5 previously listed categories.

Example of rule category:

"A change to United States tariff item 8111.00.60 from any other United States tariff item. This rule applies only to goods originating in the territory of Canada and imported into the territory of the United States."

Rules in category 6 are specific in nature and will vary throughout the Rules of Origin.

INSTRUCTION:

Refer to the paragraphs that you have highlighted in Part 2 of this Annex.

Identify the Paragraphs Containing the Rule of Origin that is Applicable to Your Finished Good.

Determine the effect of the rule by referencing the items you marked with an "I" on your Catalogue of Tariff Reductions and the change of classification occurring to those goods you marked with an "E".

The analysis under this section will vary from company to company. Those companies with products falling under categories 1, 2, 3 or 4, will have a basic and straight forward analysis to complete. Those companies with products falling within category 5 or 6 will have a more complex analysis to complete. Your analysis should provide you with an answer to the following question:

Do my finished products originate from Canada according to the rules of origin of the FTA?

If you answered YES, your finished product originates in Canada and can therefore benefit from FTA treatment.

If you answered NO, consider the following: Would it be possible to source more of your input products domestically or from the U.S.?

What would the cost of making such a sourcing change be in terms of quality? In terms of price? In terms of reliability of supply?

Will sourcing from the U.S. become more practical (in price terms) once tariffs are eliminated?

What other changes could you make in your business practices to ensure your products are classified as Canadian in origin? For example, could you alter some of the techniques in production so as to raise your direct cost of processing which could be offset by cost savings elsewhere?

What is the cost of not changing your sourcing or other business practices to take advantage of the FTA? Will failure to make such changes render you incapable of competing in the U.S. market?

Conclusion

The rules of origin under free trade are quite complex. The rules are also an integral part of the FTA and cannot be overlooked by affected businesses.

If you have reached this point in the analysis, your business is likely one of those which is affected by the rules. Your answers to the questions above should help you decide what steps are appropriate for your business to take in response to the rules of origin.

As you continue with the Guide to Strategic Planning Under Free Trade, keep in mind your analysis pertaining to the rules of origin.

Rules of Origin - Annex
PART TWO

Rules

Section I
Live Animals; Animal Products
(Ch. 1-5)

A change from one chapter to another; no changes within chapters.

Section II
Vegetable Products
(Ch. 6-14)

1. A change from one chapter to another; no changes within chapters except that agricultural and horticultural goods grown in the territory of a Party shall be treated as originating in the territory of that Party even if grown from seed or bulbs imported from a third country.

2. A change to subheadings 0901.12-0901.40 from any other subheadings, including another subheading within that group.

Section III

Animal or Vegetable Fats and Their Cleavage Products; Prepared Edible Fats; Animal or Vegetable Waxes
(Ch. 15)

1. A change to Chapter 15 from any other chapter.

2. A change to any of the following subheadings from any other subheading: 1507.90, 1508.90, 1511.90, 1512.19, 1512.29, 1513.19, 1513.29, 1514.90, 1515.19, 1515.29.

3. A change to heading 1516 from any other heading.

4. A change to heading 1517 from any other heading.

5. A change to headings 1519-1520 from any other heading outside that group.

6. A change to subheading 1519.19 from any other subheading.

7. A change to subheading 1519.20 from any other subheading.

8. A change to subheading 1520.90 from any other subheading.

Section IV
Prepared Foodstuffs; Beverages, Spirits, and Vinegar; Tobacco and Manufactured Tobacco Substitutes (Ch. 16-24)

1. A change from one chapter to another, except for goods of Chapter 20 subject to rule 5.

2. A change to heading 1704 from any other heading.

3. A change to heading 1806 from any other heading.

4. A change to subheading 1806.31 or 1806.90 from any other subheading.

5. Fruit, nut, and vegetable preparations of Chapter 20 that have been prepared or preserved merely by freezing, by packing (including canning) in water, brine, or in natural juices, or by roasting, either dry or in oil (including processing incidental to freezing, packing, or roasting), shall be treated as a good of the country in which the fresh good was produced.

6. A change to subheading 2009.90 from any other subheading; provided, that neither a single-juice ingredient, nor juice ingredients from a single third country, constitutes in single-strength for more than 60 percent by volume of the product.

7. A change to headings 2207-2209 from any other heading outside that group.

8. A change to heading 2309 from any other heading.

9. A change to headings 2402-2403 (except 2403.91) from any other heading outside that group.

Section V
Mineral Products (Ch. 25-27)

1. A change from one chapter to another.

2. A change to headings 2710-2715 from any over heading outside that group.

3. A change to heading 2716 from any other heading.

Section VI

Products of the Chemical or Allied Industries (Ch. 28-38)

1. A change to Chapters 28-38 from any chapter outside that group.

2. A change to any subheading of Chapters 28-38 from any other subheading within those chapters; provided, except for the other rules in this section, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

3. A change to a heading of Chapter 30 from any other heading, including other headings within that chapter, except a change to heading 3004 from heading 3003.

4. A change to Chapter 31 from any other chapter.

5. A change to headings 3208-3215 from any other heading outside that group.

6. A change to Chapter 33 from any other chapter.

7. A change to heading 3304-3307 from any heading outside that group.

8. A change to a heading of Chapter 34 from any other heading, including another heading within that chapter.

9. A change to subheadings 3402.20 -3402.90 from any other subheading outside that group.

10. A change to a heading of Chapter 35 from any other heading, including another heading within that chapter.

11. A change to a heading of Chapter 36 from any other heading, including another heading within that chapter.

12. A change to Chapter 37 from any other chapter.

13. A change to heading 3704 from any other heading.

14. A change to headings 3705-3706 from any other heading outside that group.

15. A change to heading 3808 from any other heading; provide, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party, or, in the case of goods which contain more than one active ingredient, not less than 70 percent of the value of the goods when exported to the territory of the other Party. Any materials that are eligible for duty-free treatment in both Parties on a most-favoured-nation basis, or any materials imported into the territory of either Party which, if imported into the territory of the United States of America, would be free of duty under a trade agreement that is not subject to a competitive need limitation, shall be treated as materials originating in the territory of a Party.

Section VII
Plastics and Articles Thereof; Rubber and Articles Thereof
(Ch. 39-40)

1. A change to any heading of Chapter 39 from any other heading, including another heading within that chapter; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

2. A change to a Chapter 40 from any other chapter.

3. A change to any heading of Chapter 40 from any other heading within that chapter; provided, except for the rules below listed in this section, that the value of materials originating in territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

4. A change to headings 4007 4008 from any other heading outside that group.

5. A change to headings 4009-4017 from any other heading outside that group.

6. A change to subheading 4012.10 from any other subheading.

Section VIII
Raw Hides and Skins, Leather, Furskins and Articles Thereof; Saddlery and Harness, Travel Goods, Handbags, and Similar Containers; Articles of Animal Gut (Other Than Silkworm Gut)
(Ch. 41-43)

1. A change from one chapter to another.

2. A change to headings 4104-111 from any other heading outside that group.

3. A change to heading 4302 from any other heading.

4. A change to headings 4303-4304 from any other heading outside that group.

Section IX
Wood and Articles of Wood; Wood Charcoal; Cork and Materials of Cork; Manufactures of Straw, of Esparto or of Other Plaiting Materials; Basketware and Wickerware
(Ch. 44-46)

1. A change from one chapter to another.

2. A change between headings in Chapter 44.

3. A change to any of the following United States tariff items from any other United States tariff item:4412.11.50, 4412.12.50, 4412.19.50, 4412.29.50, or 4412.99.90. This rule applies only to goods originating in the territory of Canada and imported into the territory of the United States of America.

4. A change to headings 4503-4504 from any other heading outside that group.

5. A change to heading 4602 from any other heading.

Section X
Pulp of Wood or of other Fibrous Cellulosic Material; Waste and Scrap of Paper or Paperboard; Paper and Paperboard and Articles Thereof
(Ch. 47.49)

1. A change from one chapter to another.

2. A change to heading 4808-4809 from any other heading outside that group.

3. A change to headings 4814-823 from any other heading outside that group except a change from heading 4809 to heading 4816.

Section XI
Textiles and Textile Articles
(Ch. 50-63)

Silk

1. A change to headings 5004-5006 from any heading outside that group.

2. A change to heading 5007 from any other heading.

Wool

3. A change to headings 5106-5113 from any heading outside that group.

Cotton

4. A change to headings 5204-5212 from any heading outside that group.

Flax, Jute, Sisal, Paper Yarn

5. A change to headings 5306-5311 from any heading outside that group.

Man-Made Filaments

6. A change to any heading of Chapter 54 from any other chapter.

Man-Made Staple Fibers

7. A change to headings 5501-5507 from any other chapter.

8. A change to headings 5508-5516 from any heading outside that group.

Wadding, Felt, Etc.

9. A change to any heading of Chapter 56 from any heading outside that chapter other than headings 5106-5113, 5204-5212, 5306-5311, or headings of Chapters 54 and 55.

Carpets and Textile Floor, Etc.

10. A change to any heading of Chapter 57 from any heading outside that chapter other than headings 5106-5113, 5204-5212, 5306-5309, 5311, or 5508-5516.

Special Woven Fabrics, Etc.

11. A change to any heading of Chapter 58 from any heading outside that chapter other than headings 5106-5113, 5204-5212, 5306-5311, or headings of Chapters 54 and 55.

Impregnated, Coated, Covered, or Laminated Textile Fabrics

12. A change to any heading of Chapter 59 from any heading outside that chapter other than headings 5111-5113, 5208-5212, 5309-5311, 5407-5408, or 5512-5516.

Knitted or Crocheted Fabrics

13. A change to any heading of Chapter 60 from any heading outside that chapter other than headings 5106-5113, 5204-5212, 5309-5311, or headings of Chapters 54 and 55.

Apparel - Knitted or Crocheted

14. A change to any heading of Chapter 61 from any heading outside that chapter other than headings 5111-5113, 5208-5212, 5309-5311, 5407-5408, or 5512-5516; provided, that goods are both cut (or knit to shape) and sewn or otherwise assembled in the territory of either Party or both Parties.

Apparel - Not Knitted or Crocheted

15. A change to any heading of Chapter 62 from any heading outside that chapter other than headings 5111 -5113, 5208-5212, 5309-5311, 5407-5408, or 5512-5516; provided, that goods are both cut and sewn in the territory of either Party or both Parties.

Other Made-Up Articles

16. A change to any heading of Chapter 63 from any heading outside that chapter other than headings 5106-5113, 5204-5212, 5306-5311, or headings of Chapter 54 and 55; provided, that goods are both cut and sewn in the territory of either Party or both Parties.

17. Notwithstanding rules 14 and 15, apparel goods provided for in Chapters 61 and 62 that are both cut and sewn in the territory of either Party or both Parties from fabric produced or obtained in a third country, and that meet other applicable conditions for preferred tariff treatment under this agreement, shall be subject to the rate of duty provided in Annex 401.2, in the annual quantities set forth below, and shall, above those quantities for the remainder of the annual period, be subject to duty at the rates provided for most-favoured nations.

	From Canada	From the United States of America
Non-woolen apparel	50 million SYE	10.5 million SYE
Woolen apparel	6 million SYE	1.1 million SYE

SYE- Square Yard Equivalent

Trade in the apparel described in rule 17 shall be monitored by the Parties with a view to adjusting the annual quantity limitations at the request of either Party based on the ability of apparel producers to obtain supplies of particular fabrics originating within the territories of the Parties. Before January 1, 1998, the annual quantity limitations shall be renegotiated to reflect current conditions in the textile and apparel industries located within the territories of the Parties, including the ability of such apparel producers to obtain supplies of particular fabrics originating within the territories of the Parties.

18. Notwithstanding rules 4, 5, 6, 8, 11, 13 and 16, non-woolen fabric and non-woolen made-up textile articles provided for Chapters 52-55, 58, 60 and 63 that are woven or knitted in Canada from yarn produced or obtained in a third country, and that meet other applicable conditions for preferred tariff treatment under this Agreement, shall be subject to the rate of duty provided in Annex 401.2, in the annual quantity of 30 million square yards for the period commencing on January 1, 1989 and ending on December 31, 1992, and shall, above this quantity for the remainder of the annual period, be subject to duty at the rates provided for most-favoured nations. The Parties agree to revisit the quantitative element of this agreement two years after its entry into force together with representatives of the industries in order to work out a mutually satisfactory solution, taking into account the availability of yams in both countries.

Section XII
Footwear, Headgear, Umbrellas, Sun Umbrellas, Walking Sticks, Seatsticks, Whips, Riding Crops and Parts Thereof; Prepared Feathers and Articles Made Therewith; Artificial Flowers; Articles of Human Hair
(Ch. 64-67)

1. A change from one chapter to another.

2. A change to subheadings 6401.10-6406.10 from any other subheading outside that group; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

3. A change to headings 6503-6507 from any other heading outside that group.

4. A change to headings 6601-6602 from any other heading outside that group; provided that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

5. Within heading 6701, goods fabricated from feathers (such as fans, feather dusters, and feather apparel) in which feathers are the material or component that gives the fabricated goods their essential character shall be treated as a good of the country in which fabrication occurred.

6. A change to heading 6702 from any other heading.

7. A change to heading 6704 from any other heading.

Section XIII
Articles of Stone, Plaster, Cement, Asbestos, Mica, or Similar Materials
(Ch. 68-70)

1. A change from one chapter to another.

2. A change to subheading 6812.20 from any other subheading.

3. A change to subheading 6812.30-6812.40 from any other subheading outside that group.

4. A change to subheading 6812.50 from any other subheading.

S. A change to subheadings 6812.60-6812.90 from any other subheading outside that group.

6. A change to heading 6813 from any other heading.

7. A change to headings 7003-7006 from any other heading outside that group.

8. A change to headings 7007-7020 from any other heading outside that group.

9. A change to subheading 7019.20 from any other heading.

Section XIV
Natural or Cultured Pearls, Precious or Semiprecious Stones, Precious Metals, Metals Clad with Precious Metals, and Articles Thereof; Imitation Jewelry; Coin
(Ch. 71)

1. A change from one chapter to another.

2. A change to headings 7113-7118 from any other heading outside that group, except that pearls, temporarily or permanently strung but without the addition of clasps or other ornamental features of precious metals or stones, shall be treated as a good of the country in which the pearls were obtained.

Section XV
Base Metals and Articles of Base Metals
(Ch. 72-83)

1. A change from one chapter to another; provided, that goods subject to rules 9 or 22 meet the conditions set forth therein.

2. A change to headings 7206-7207 from any other heading outside that group.

3. A change to headings 7208-7216 from any other heading outside that group.

4. A change to heading 7217 from any other heading except headings 7213-7215.

S. A change to headings 7218-7222 from any other heading outside that group.

6. A change to heading 7223 from any other heading except headings 7221-7222.

7. A change to headings 7224-7228 from any other heading outside that group.

8. A change to heading 7229 from any other heading except headings 7227-7228.

9. A change to heading 7308 from any other heading, except for changes resulting from the following processes performed on angles, shapes, or sections of heading 7216:

a) drilling, punching, notching, cutting, cambering, or sweeping, whether per formed individually or in combination;

b) adding attachments or weldments for composite construction;

c) adding of attachments for handling purposes;

d) adding weldments, connectors, or attachments to H-sections or I-sections; provided, that the maximum cross-sectional dimension of the weldments, connectors, or attachments is not greater than the dimension between the inner surfaces of the flanges of the H-sections or I-sections;

e) painting, galvanizing, or otherwise coating; or

f) adding a simple base plate without stiffening elements, individually or in combination with drilling, punching, notching, or cutting, to create an article suitable as a column.

10. A change to headings 7309-7326 from any other heading outside that group.

11. A change to headings 7403-7408 from any other heading outside that group; provided, With the exception of a change to subheading 7408.19, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

12. A change to heading 7409 from any other heading.

13. A change to headings 7410-7419 from any other heading outside that group; provided, that with respect to a change to heading 7413, the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of goods when exported to the territory of the other Party.

14. A change to heading 7505 from any other heading.

15. A change to heading 7506 from any other heading.

16. A change to United States tariff item 7506.20.50 from any other United States tariff item. This rule applies only to goods originating in the territory of Canada and imported into the territory of the United States of America.

17. A change to headings 7507-7508 from any other heading outside that group.

18. A change to headings 7604-7606 from any other heading outside that group.

19. A change to heading 7607 from any other heading.

20. A change to headings 7608-7609 from any other heading outside that group.

21. A change to headings 7610-7616 from any other heading outside that group.

22. A change to headings 7801 or 7901 from headings of other chapters; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

23. A change to headings 7803-7806 from any other heading, including another heading within that group; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

NOTE: see rule 22 regarding 7901.

24. A change to headings 7904-7907 from any other heading, including another heading within that group; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

25. A change to headings 8003-8004 from any other heading outside that group.

26. A change to headings 8005-8007 from any other heading outside that group.

27. A change to any of the following subheadings from any other subheading: 8101.92, 8101.99, 8102.92, 8102.99, 8103.90, 8104.90, 8105.90, 8108.90, 8109.90.

28. A change to subheading 8107.90 from any other subheading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

29. A change to United States tariff item 8111.00.60 from any other United States tariff-item. This rule applies only to goods originating in the territory of Canada and imported into the territory of the United States of America.

Section XVI
Machinery and Mechanical Appliances; Electrical Equipment; Parts Thereof; Sound Recorders and Reproducers, and Parts and Accessories of Such Articles (Ch. 84-85)

1. A change from one chapter to another, other than a change to heading 8544.

2. A change from one heading (other than a parts heading) to another heading, other than heading 8528 or 8529.

3. A change to heading 8407 from any other heading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party

4. A change to heading 8528 or 8529 from any other heading, a change from a parts heading to a heading other than a parts heading, or a change from a parts subheading to a subheading other than a parts subheading; provided, with the exception of a change to subheading 8471.92. that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

5. A change to subheadings 8471.20-8471.91 from any subheadings outside that group.

6. A change to subheadings 8516.10-8516.79 from subheading 8516.80.

7. A change to heading 8524 from any other heading. Goods subject to classification under headings 8523 or 8524 shall remain classified in those headings, whether or not they are entered with the apparatus for which they are intended.

NOTE: see rule 4 regarding headings 8528 and 8529.

8. A change to heading 8544 from any other heading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

Section XVII
Vehicles, Aircraft, Vessels and Associated Transport Equipment
(Ch. 86-89)

1. A change from one chapter to another.

2. A change to any heading of this Section (other than a heading within the groups 8701-8705 or 8901-8905) from another heading other than a parts heading.

3. A change to any heading of this Section from a parts heading; or within any heading, a change to any subheading from a parts subheading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

4. A change to headings 8701-8705 from any other heading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

5. A change to headings 8901-8905 from any other headings; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

Section XVIII
Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Clocks and Watches; Musical Instruments; Parts and Accessories Thereof
(Ch. 90-92)

1. A change from one chapter to another.

2. A change to any heading of this Section from a parts heading, or to any subheading from a parts subheading; provided, with the exception of a change to heading 9009, that the value of materials originating in the territory of either Party of both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

3. A change to any heading within the group 9005-9032 from another heading (including another heading within that group), except that a change from a parts heading shall be subject to rule 2 of this Section.

4. Notwithstanding rule 2, goods subject to classification within headings 9101-9107 shall be treated as products of the country in which the movement subject to classification under headings 9108-9110 was produced.

5. A change to headings 9108-9113 from any other heading, including another heading within that group; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

Section XIX
Arms and Ammunition; Parts and Accessories Thereof
(Ch. 93)

1. A change to this chapter from any other chapter.

2. A change to any heading of this Section from a parts heading, or to any subheading from a parts subheading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

Section XX
Miscellaneous Manufactured Articles
(Ch. 94-96)

1. A change from one chapter to another, except a change to subheading 9404.90 from headings 5007, 5111-5113, 5208-5212, 5309-5311, 5407-5408, and 5512-5516.

2. A change to any heading of this Section from a parts heading, or to any subheading from a parts subheading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

3. A change to a subheading within the group 9608.10-9608.39 from a subheading within the group 9608.91-9608.99; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

4. A change to subheading 9614.20 from subheading 9614.10.

Section XXI
Works of Art, Collectors' Pieces and Antiques
(Ch. 97)

1. A change to this chapter from any other chapter.

Article 304: Definitions
For purposes of this Chapter:

direct cost of processing or **direct cost of assembling** means the costs directly incurred in, or that can reasonably be allocated to, the production of goods, including:

a) the cost of all labour, including benefits and on-the job training, labour provided in connection with supervision, quality control, shipping, receiving, storage, packaging, management at the location of the process or assembly, and other like labour, whether provided by employees or independent contractors;
b) The cost of inspecting and testing the goods;
c) The cost of energy, fuel, dies, molds, tooling, and the depreciation and maintenance of machinery and equipment, without regard to whether they originate within the territory of a Party;
d) development, design, and engineering costs;
e) rent, mortgage interest, depreciation on buildings, property insurance premiums, maintenance, taxes and the cost of utilities for real property used in the production of the goods; and
f) royalty, licensing, or other like payments for the right to the goods; but not including:
g) costs relating to the general expense of doing business, such a the cost of providing executive, financial, sales, advertising, marketing, accounting and legal services, and insurance;
h) brokerage charges relating to the importation and exportation of goods;
i) costs for telephone, mail and other means of communication;
j) packing costs for exporting the goods;
k) royalty payments related to a licensing agreement to distribute or sell the goods;
l) rent, mortgage interest, depreciation on buildings, property insurance premiums, maintenance, taxes and the cost of utilities for real property used by personnel charged with administrative functions; or
m) profit on the goods;

materials means goods, other than those included as part of the direct cost of processing or assembling, used or consumed in the production of other goods;

value of materials originating in the territory of either Party or both Parties means the aggregate of:

a) the price paid by the producer of an exported good for material originating in the territory of either Party or both Parties or for materials imported from a third country used or consumed in the production of such originating materials; and

b) when not included in that price, the following costs related thereto:

i) freight, insurance, packing and all other costs incurred in transporting any of the materials referred to in subparagraph (a) to the location of the producer;

ii) duties, taxes and brokerage fees on such materials paid in the territory of either Party or both Parties;

iii) the cost of waste or spoilage resulting from the use or consumption of such materials, less the value of renewable scrap or by-product; and

iv) The value of goods and services relating to such materials determined in accordance with subparagraph 1 (b) of Article 8 of *the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade*.

value of the goods when exported to the territory of the other Party means the aggregate of:

a) The price paid by the producer for all materials, whether or not the materials originate in either Party or both Parties, and, when not included in the price paid for the materials, the following costs related thereto:

i) freight, insurance, packing and all other costs incurred in transporting all materials to the location of the producer;

ii) duties, taxes and brokerage fees on all materials paid in the territory of either Party or both Parties;

iii) The cost of waste or spoilage resulting from the use or consumption of such materials, less the value of renewable scrap or by-product; and

iv) The value of goods and services relating to all materials determined in accordance with subparagraph l(b) of Article 8 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade; and

b) The direct cost of processing or the direct cost of assembling the goods;

goods wholly obtained or produced in the territory of either Party or both Parties means:

a) mineral goods extracted in ~e territory of either Party or both Parties;

b) goods harvested in the territory of either Party or both Parties;

c) live animals born and raised in the territory of either Party or both Parties;

d) goods (fish, shellfish and other marine life) taken from the sea by vessels registered or recorded with a Party and flying its flag;

e) goods produced on board factory ships from the goods referred to in subparagraph (d) provided such factory ships are registered or recorded with that Party and fly its flag;

f) goods taken by a Party or a person of a Party from the seabed or beneath the seabed outside territorial waters, provided that Party has rights to exploit such seabed;

g) goods taken from space, provided they are obtained by a Party or a person of a Party and not processed in a third country;

h) waste and scrap derived from manufacturing operations and used goods, provided they were collected in the territory of either Party or both Parties and are fit only for the recovery of raw materials; and

i) goods produced in the territory of either Party or both Parties exclusively from goods referred to in subparagraphs (a) to (h) inclusive or from their derivatives, at any stage of production.